CSL Finance Limited

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November 18, 2024

National Stock Exchange of India Limited Exchange Plaza, C-1, Block-G, Bandra Kurla Complex, Bandra (E), Mumbai - 400051 **NSE Symbol: CSLFINANCE**	**BSE Limited** Corporate Relationship Department Phiroze, Jeejeebhoy Towers, Dalal Street, Mumbai-400001 **BSE Scrip Code: 530067**

Dear Sir/Ma'am

<u>Sub: Transcript of the Conference Call held on November 11, 2024</u>

With reference to our letter dated November 05, 2024, intimating you about the conference call for Analysts and Investors held on November 11, 2024, please find attached the transcript of the aforesaid conference call.

The above information shall be made available on the website of the Company viz. www.cslfinance.in.

We request you to kindly take the above information on your record.

Thanking You

Yours Faithfully,
For CSL Finance Limited

ROHIT GUPTA

Digitally signed by ROHIT GUPTA
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Rohit Gupta
Managing Director
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Encl: A/a

CSL Finance Limited
Q2 & H1 FY25 Earnings Conference Call
November 11, 2024

Moderator: Ladies and gentlemen, good day and welcome to the CSL Finance Limited Q2 & H1 FY25 Earnings Conference Call, hosted by TIL Advisors Private Limited.

As a reminder all participant lines will be in the listen only mode and there will be no opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Sayam Pokharna from TIL Advisors Private Limited, Thank you and over to you sir.

Sayam Pokharna: Thank you Lizan. Good evening, and thanks for joining this Q2 and H1 FY25 Earnings Conference Call of CSL Finance Limited. The investor presentation has been already uploaded on the Stock Exchange and on the Company website. In case anyone does not have a copy, please feel free to write to us.

To take us through today's results we have with us from the management team Mr. Rohit Gupta, Managing Director, Mr. Amit Ranjan, Chief Operating Officer, Mr. Naresh Chandra Varshney, Chief Financial Officer, Mr. Chandan Kumar, Wholesale Credit Head, Ms. Rachita Gupta, Whole Time Director, Mr. Deepak Sood, President SME North and Mr. Atul Agrawal, President Finance and Treasury.

We will begin with a brief overview of the quarter and of the half year from Ms. Rachita Gupta, followed by a Q&A session. Please note that any forward looking statement made during this call should be considered in conjunction with the risk and uncertainty that we face. We have been outlined in our annual reports. With that, I would now hand over a call to Mr. Rachita. Over to you.

Rachita Gupta: Thank you Sayam. Good evening everyone, just to make a short note, Mr. Naresh Varshney, is not a part of today's call couldn't join in today. So thank you everyone for joining us today. For CSL Finance's Q2, and H1 FY25 Earnings Conference Call, I am pleased to provide you with an overview of a performance and key development during this period. Our financial result for Q2 and H1 FY25 reflects a mix of challenges and opportunities. The AUM growth has been a little slow, standing at 22% year-over-year and 2% quarter-on-quarter in Q2. This performance is primarily attributed to external factors, internal adjustments which are elaborate on.

The SME segment faced some headwinds during H1 FY25. Lower disbursements were observed due to severe weather and heat wave conditions in Northern India, heavy monsoons and partial flooding in some Western markets. Apart from weather related changes which affected both disbursements and collections, there were some election related disturbances and internal productivity issues which also contributed to tepid AUM growth. In our last quarters communication, we highlighted the latest change in RBI policy on booking disbursement, which requires fund to be credited to borrowers account before booking disbursement, while originally disbursements were booked on check issue date, the prevalent industry practice at that time. While this adjustment took longer than we originally anticipated, we believe it will yield long term benefits by reducing cancellations on sanctions and ensuring more accurate business booking.

The team had to be aligned to the new policy, which we now believe is completed. On a brighter note, our wholesale book continues to perform well, benefiting from a conducive business environment in a thriving real estate industry. The deal pipeline for the wholesale book is meeting our original expectations. As a result of these dynamics, our SME retail to wholesale AUM mix has shifted to 39% and 61% respectively, in favor of the wholesale book over the last two quarters. We believe this is a short-term trend, and as the SME retail segment gets back on growth track and H2 FY25 we will again start moving towards the growing SME retail mix. In the light of the macro environment and RBIs concerned about unsecured lending, we have also tightened our credit policies and systems. A new LOS for lab is scheduled to go live in November, which we will also support this initiative.

Regarding provisioning, we have taken a conservative approach. Write offs for Q2 and H1 were higher, primarily due to Suvidha loan book. We have written off all accounts 90 days past due. A total of 3.2 crores has been written off out of the cumulative disbursement of 15.84 crores in the Suvidha book. We do expect decent recovery from these write offs over the next 12 months, as we have demonstrated in the past. It's worth noting that we maintain a healthy provision coverage ratio 224%. Our total income is in-line with AUM growth. However, net interest income growth has been slightly lower due to lower AUM growth and lesser fee income in Q2. Net profitability experienced a 3% Q-o-Q decline, mainly due to higher provisioning in the Suvidha book and some higher slippages in the SME retail book.

There was also an impact of increased operational expenses on the PAT. These are mainly related to our branch expansion plans. On a positive note, a year-on-year PAT grows to the 20% and due to its superior cost control, the company has maintained higher ROA and ROE as compared to industry averages. We have made significant strides in expanding our operational footprint. This quarter, we added eight new branches following the five additions which we have done in quarter one. It is important to know that our branch count was 29 at the start of the financial year, and now stands at 42. This expansion has naturally led to an increase in our team strength and associated operational expenses, which I alluded to earlier. We have also strengthened our lending partnerships, adding three new names in this quarter. These are Bajaj

Finance, Ujjivan Small Finance Bank and Capital Small Finance Bank. Our liquidity position remains strong at 53.6 crores, supplemented by 100 crores DA line from SBI.

I would also like to update on our Suvidha product. Following our earlier communication, we have created a new platform based on learning from the first pilot launch. However, the given current industry scenario and regulatory caution or unsecured lending just temporarily put the launch of pilot 2.0 on hold. Also, given the feedback we have received from a team and the practical challenges associated with the product, we would like to re-launch it once we have full clarity on the behavior of the borrower associated and a better external environment.

Considering the impact of various factors on our loan book growth in H1 we have revised the AUM target for FY25 to 1,250 – 1,350 crores from the previous, ranging between 1,350 to 1,450 crores. We expect the consolidation in our SME retail book to conclude in H2 and we anticipate improved AUM growth in the coming quarters.

In conclusion, while we have faced some challenges, we remain confident in our strategy direction and our ability to navigate the current market conditions. We are committed to maintaining a focus on prudence risk management, while pursuing sustainable growth opportunities. Thank you all for your attention. We will now open the floor for questions.

Moderator: Thank you. Ladies and gentlemen, we will now begin with the question-and-answer session. The first question is from the line of Anil Tulsiram from Contrarian Value Edge. Please go ahead.

Anil Tulsiram: Sir, in FY24 annual report we have given guidance to double the AUM over next two years. My question is more on the availability of funding for this growth. RBI is constantly pushing NBFCs to diversify their sources of funds beyond banks and NBFCs. So what are the steps we are taking for diversification of funding sources, that is the first question.

Management: Hi Anil, if you see as a company last year, our number of lenders have grown from 4 to 32 as of now, and we are constantly exploring in increasing the number of lenders, both from large private sector banks, PSUs, large NBFCs and small finance bank and other sources, as you said that RBI has told especially the larger ones, because they have a better ability to raise funds through bonds and external commercial borrowing. So that will be a focus area in coming years. As of now and still, we have a lot of other lenders which we still not onboarded and as a company, being a total secured book, we don't foresee a largely we have two challenge in the coming next three to six months in raising funds. But, definitely we have to look for other sources, but being a raising funds through bonds and other borrowings at this time will be more costlier than the lines of credit that we have.

Anil Tulsiram: Got it sir. Next question is on the co-lending partnership. So how many co-lending partnerships we have, and what is the plan for the next three to four years for both wholesale and retail and what percentage of book we wanted to contribute over next three, four years?

Management: The co-lending we have built a lot of relationship with the SME side with PSU belt, namely with IOB and Tata Capital. It is a DA, we have a line of DA from SME, from State Bank of India. And there was another DA, **(Inaudible) 10:27.** So we have already built four relationships, so either we are doing DA or co-lending, I would say, the same thing for as a lender, and on the wholesale side, we have built small relationship with DSCI, Kotak, HDFC Finserv and the NBFCs like Rajasthan Global. So we have a huge relationship with Rajasthan through co-lending also. So we will be exploring more opportunities on both wholesale and retail and the retail we do have a DA line of 100 crores from SBI, which will intend to use in next three to six months.

Anil Tulsiram: Because of the size of the company. Do you see any reluctance from the PSU banks to enter into co-lending partnership with you, because, I am saying co-lending, not DA, co-lending books still remains quite small for us. So can you update more on this?

Management: We are also very not keen on co-lending at this stage on the retail because, in co-lending we do a soft sanction, then it goes to a lender to approve that, and that will increase the tax and so the segment we are in, it will delay our decision making. And for us, it is more practical to do co-lending two. When most of the companies are doing co-lending two, which is where you onboard the customer on our own book and within 30 to 60 days, we do 80:20 model. So that is the most prevalent model, that we have done with IOB, and where we see lot of opportunities even the State Bank is also on the same model. So, most of the companies are working on co-lending two and we are already working with on co-lending two with two three of PSU lenders.

Anil Tulsiram: Got it sir. And last question is on our credit rating. We used to have rating from CARE, and then we shifted to acute. My question is, CARE, ICRA and CRISIL are considered the top rating agencies, and from the top three rating agencies, we moved to someone who is not considered a top one. So what's the reason for the same?

Management: So they do have their own internal, I would say certain benchmarks, which sometimes as a company they were saying a very broad board and a certain size of your AUM, which sometimes overlooks the other strong financial parameters of the company, whether on the capital adequacy, whether on the profitability, whether on the ROE, so based on that we thought that, and most of the lending NBFCs based on the rating, and in due course, definitely in coming years, we will be approaching these big four rating agencies also to get a rating done.

Anil Tulsiram: Got it. Sir, I have one more question. Can I ask or should I join the queue?

Management: Please tell me.

Anil Tulsiram: Sir in SME, in the presentation we have products from 2 lakhs to 5 crores. So two questions first, what is our focus ticket size and second is, what is the thought process in having products beyond 15 lakhs because given our cost of product we have midsize lap also where the ticket size around 2 crores to SFD, big NBFCs are already quite active here. So these are the two questions.

Management: If you go through our presentation our micro SME is a between ticket size of 5, 7 lakhs to 25, 30 lakhs primarily, and between 30 to 50 lakhs. We are only doing for our school loans, maybe up till 75 lakhs. But largely now the focus, one of the reasons for slow growth on the SME was also that, we strategically shifted the ticket size from 15 lakhs to 30 lakhs. That, we think is a very good ticket size where quality of the borrower, the collateral and the profile of the customer is better than doing less than 5, 7 lakhs. Though, where you are able to get high IRR. But in terms of practically, it is a segment which you can stay unsecured on the face of it, though being categorized as secured by large most of the companies, because those properties, the title document which you are getting and secondly, the very marginal customer in a tier three, mostly the rural customers getting position of those properties is basically very, very difficult. And neither for companies for us, SARFAESI is not applicable and strategy we have chosen that we are doing a ticket size of less than 10 lakh, but we have restricted ourselves not to do more than 10% to 15% of our portfolio, and we will see the risk in the going forward how that portfolio performed. So for us, the quality has been the foremost and that was also one of the reason that the slippages which as an industry everybody was seeing and we also witnessed certain slippages, we were more cautious of the effect and strengthened our credit policies. And so as of now, the ticket size which we are focusing is on between 15 lakhs to 30 lakhs on the micro SME and it loans till up to 75 lakhs and 5 crores which you are seeing is the medium MSL loan, which are under the bouquet of SME loan. But that segment is totally different and that is only, I would say 15% to 18% of the SME bucket and ticket size is 173 and which we are primarily doing in the NCR region only. And we are not doing that product from our branches. Micro SME retail book is less than 25, 30 lakhs that is where the focus is and going forward our focus is between 15 lakhs to 30 lakhs.

Moderator: Thank you. The next question is from the line of Dhwanil Desai from Turtle Capital. Please go ahead.

Dhwanil Desai: So, first question is that, if I look at our write offs, net off EBITDA we have done around 3 crores write off in H1, that's a very respectable number given how the situation on the unsecured side is shaping up on the SME and retail side. So, can you give some more color as to, how the things are on ground for our portfolio, are we seeing any stress and going forward how should we look at the slippages and GNPA numbers for the retail book?

Management: Firstly, most of the write offs two point, that was in second the full half year is only from the Suvidha unsecured fabricator book, 2.2 in this quarter, 1.5 something was in the first quarter so roughly around 3.5 crores we have done from the Suvidha book only, which we started just nine months back, as a pilot giving loans for purchase of raw material with the subvention scheme with a very large company. But we found that, there being an unsecured book largely so you can say that the secured somewhat was the receivables, but we will treat it as unsecured, very marginal borrowers and no control over the achievable. And we have seen that certain wrong, ethical practices have also been when these kind of products, which 30, 40, 50,000, kind of products happen with the team, and there are always chances of those unethical practices gets percolated into your segment. So, we have completely stopped and completed written off as of now, we are 100% secure book and you can say those strategic shift was for the retail, but in last two quarters, as the retail was not able to grow that much that we have foreseen. So the focus has been on the, it has shifted towards wholesale. So now in terms of what kind of slippages which we are seeing, Amit is also there, Deepak is also there. They can give a better outflow, first according to Amit about whatever, how they see this market which we are in, and what kind of slippages as a company. And then Deepak can put on his own view and if anything, I can also explain. Yes, Amit.

Amit Ranjan: So in terms of what Rohit sir has said, conditions are, we are little tough for SME and the businesses which we have done has been not at a great pace which we anticipated because of the reasons they already explained. But in terms of slippages, we don't see much of it. Obviously, it's an SME retail book, there are chances of some slippages but it will be not of that level that is going to impact the book, because now on from Q2, which started from October, we are targeting to at least have a good disbursal such as the denominator also increases by that we are controlling all the power levels also and the team is totally aligned for business and collections. And we foresee that lot of recovery we are going to do in coming months. So the slippages will be there, but we will be able to minimize with the recovery, which we are going to do in coming days.

Management: Just to put a point, as a company if you are seeing that being a secure book, and we are very focused on strong collection and through legal and collection team. We are able to recover more than as we have already shown that with a lack effect of 15 to 18 months we are able to recover more than 90% of our NPA and we are very confident that whenever NPA happens, we are able to resolve within six months to 24 months, and the same will be the scenario going forward. And there may be certain slippages, but it will be controlled through collection and from the existing NPAs. So, Deepak you have anything to add?

Deepak Sood: My only point, in addition to what Rohit sir and Amit sir said is that, we are continuously monitoring our policies towards credit and collection, and we treating them as per the market requirement because, yes the situation in next couple of quarters is definitely **(Inaudible) 21:25** so we are working on that, and we have a very robust collection model in place. So, I am sure slippages might be there, might not be there but yes, we are prepared for that, and we will be able to handle that effectively. Thanks.

Dhwanil Desai: So, again coming back to this, so net of the EBITDA write off was close to 3 crores in first half. So, whatever is the gross slippages number, net of that is what we see going forward or do we see any incremental numbers for H2. Because Suvidha is completely written off, all 90 days DPD you mentioned it's written off completely?

Management: That was from Suvidha loan. So Suvidha loan book is not there, we will be able to see some recovery, we may be able to recover 50% to 60% in next 12 month, and rest may be unrecoverable, and that is a case of Suvidha loans, not of core SME division which is totally secured and in the secured one, we see what kind of additional slippages that may happen, that may be in the tune of, I would say 2% of the book, 2% to 3% of the book in next two quarters, but that will be nullified to the extent of 50% more than that will be nullified through the collections from the legal and collection team. So we are not seeing any substantial additional NPA on our SME book, and absolute level they will be at, but it will be nullified by the collection from the existing NPAs and the write offs.

Dhwanil Desai: Got it. So now coming to the retail book growth. So as you mentioned, that for various reasons, we have kind of slowed down on the retail side of it. So how do you see it from H2 picking up and let's say our target of reaching 50:50. Again, we will start that journey from 40% towards that 50% in H2, or you think that you will wait out couple of quarters and then probably start growing the retail book?

Management: So Anil, I will answer this. Whatever, things which has happened in the H1 is not going to be repeated and we are very much aligned, and we are very much clear that the path from here is to do business, and there is no stopping. Because whatever things which has happened in the past, we have taken certain steps on the credit under writing, we have taken certain steps on the geographies which is not doing great. We opened a few branches, we are going to stabilize that, so hopefully I don't see any challenges in coming months, and with this month, which November, and as you also know, that the RBI has their own policies in place, and then we have to implement each and everything. So, we have gone through all those phases in the past four or five months, and that's the reason the growth was a little slow. Although the team were doing all the businesses, we have reduced the ticket size, the focus was on the micro lab so that we cater most of the MSME clients. So, from there now, eventually we are gradually focusing on 15 to 30 lakhs of loans, where, in the volume will also come, the business profile of the client will be a little better from the micro loan's client and there is nothing left where we should be saying that we will be doing less of loan and there will be a challenge in coming days. I don't see that, because this is the last six months where lot of NBFCs, or if I do max business, and we are totally ready for that, and we have been all the platforms ready with the new LOS coming, a lot of integration is already done, so the fast processing will be there and the good thing has happened that everyone is aligned with the new processes and policies which we have right.

Management: I would like to add one thing that, as a company we always believe that to have a stronger ROA, ROE, if you think both are above par as per the industry parameters, industry peer comparison if you see in our size with companies from 500 to 700 to 2000 crore AUM so as a company we are very focused on to have a very robust book in terms of quality also. So we are never into the business of target based lending, where few of the NBFCs were there, very aggressive lending and compromising on the quality and certain correct parameters, and that is going to play out in next, I would say two to three quarters. So definitely and our wholesale book is also helping us when the things were little down on the SME side in the first half. So as a company we are much more balanced. Though we have reduced our target we could have easily achieved so with the higher allocation of wholesale book, but we thought that our strategic shift has been towards the SME and it will remain, and we don't want to increase our book only through the wholesale component, and the focus in next quarter will be from the retail part, but at the same time, we will be cautious of what is happening in the industry around the segment that we are in, and if any need will be there to be little more cautious as a company. We have always been there, and we will keep on doing it. But now definitely the two quarters are always good and with the more sanity coming within the micro-MFIs and company is focusing on the micro SME lab, that will also help us in growing our book.

Moderator: Thank you. The next question is from the line of Ankit Gupta from Bamboo Capital. Please go ahead.

Ankit Gupta: So, my question was on, you did mention about that, so you did speak about some stress in the unsecured lending also impacting the secured lending side. So, overall industry even on the secured side you are seeing some challenges, but given our strength and our credit assessment parameters, we are not seeing sense. So, if you can broadly talk about what kind of are we also seeing some stress across the industry, on the secure lending front on the SME side?

Management: Very frankly, but we have seen what is happening on MFI, if you see what RBI has been saying it, even certain data is saying is that, instead of company focusing on the requirement of the actual requirement of the customer, when we start doing target based lending, and from average three customers in every MFIs, even more than five to 10 lenders in their book, what RBI in 2022 so as a company, we are always very focused to have a quality book, but at the same time, when we have to working with this competitive environment, so we are also in the same environment, and we have always focused to have a quality book. And that has been one of the reasons that in last five, six months our group was little lesser as we were changing our policies this is what is happening within the industry. Definitely, I would say stress will be little larger in MFIs and small micro lenders, less than 5 to 10 lakhs, which are also a quasi MFI segment. And that is why our focus is to do in tier two, and I would say tier three cities, rather than going into complete rural areas, and doing that less than 5-10 lakh, which we have restricted to 15% to 20% of total segments, and that we also constantly keep on monitoring the quality of the portfolio. So yes, we may see some stress, but in terms of percentage in absolute level, on GNPAs and NPAs we will be able to handle it, from recovery from our existing NPAs and write offs. And that should stabilize in next two quarters, this next two quarters where I would say the little slippages can happen what we foresee as of now and then. So yes the stress definitely when the unsecured lending will stop or will be lesser. That can percolate little bit to SME lenders, especially on the micro SME lenders, less than 5 to 10 lakhs and in most of our cases, we are doing lending, 92% of our cases are where the self-occupied residential property is the primary collateral with us, and we focus on tier two, tier three cities and mostly semi-rural segments, we are little better placed as compared to that segment where the stress will be larger.

Ankit Gupta: Sure. So, given how the scenario is currently, we had a very aggressive target on branch expansion. So, will we continue our expansion plans in second half also?

Management: Yes, Deepak and Amit they can also. Yes, Amit.

Amit Ranjan: Yes, there is no point of holding on the explanation, we have already added eight branches, and we target to, as per our target we are going to add another four to six more branches. And, like I have always believed in organic growth, so the growth on the expansion as well on the business front will be pretty organic and we will not go by the rat race which is going on that building up the numbers and later on getting into collections and the books getting eroded. We have a very, the company has a vision of doing a quality business, quality collateral. We have set our targets in a segment which is a very sweet spot of around 10 to, 15 to 25 lakhs where we are covered through the legalities of the collateral, plus we also know that what kind of client we are having and we have already earmarked places where we want to open. And these branches eventually will take some time to stabilize, because in terms of manpower as well as on the product. But yes, another four to six more branches will add, and then in the next financial year we have another plans accordingly. So expansion as well as business will have a decent growth which we foresee in coming quarters. Deepak?

Deepak Sood: In my opinion, I would say a little stress for companies which are in our size from 500 to 2000, we see that we are little better placed in terms of capital advocacy, focus on profitability, as Amit told you, we are not in the business of just opening branches, not looking at productivity. And if I would say some stress will be helpful for us, even in the longer term, that we are assuming growth without any focus on quality and opening branches, and too much of attrition in the industry that will also stabilize. And that was also the need of the hour, where the attrition has to come down, especially in the branches which was a very high in all of the, I would say companies doing business in our segment. So all those things are, this consolidation, this energy coming back all are good things and with the companies with decent capital adequacy, with focus on profitability and ROA and ROE, and instead of only looking at growing AUM, without adding any profitability into their books and with huge operational expenses, we in hand side thing that it will be good for us in the longer term, and some sanity will also prevail in the industry we are in, and It will also help us in the future growth.

Ankit Gupta: That's very good to hear. And sir my third question was on some of our fixed cost, like employee costs and other expenses. So, we have seen the employee expenses and other expenses have continued to increase, not just on a Y-o-Y basis, but even on a Q-o-Q basis in this quarter. So, do you think the growth in this expenses will continue to mirror the loan book growth for us, or at some point of time will hit a ceiling where this, what this cost will not grow, will grow lower than the growth in our loan book.

Management: I think Atul is also there. But in my opinion, this growth in AUM will be much higher as compared to the growth in the cost. Now we are completely full with the team, and generally the branch level team is the new additions in branches that will happen and yes, our effort will be to bring more productivity and rationalize when required and that action we have already started and so going forward, you will not see that our other cost and employee cost growth will be lower than the growth in the AUM. That is for sure.

Moderator: Thank you. The next question is from the line of Nirvana Laha from Badrinath Holdings. Please go ahead.

Nirvana Laha: Sir this is my first time asking a question on the call. I have been following the business for quite some time, and I am aware of how the business has developed. I just want to ask a few questions on the SME lending part of your portfolio. So before, I have three, four questions but if, you can give me an overview of what exactly is the underwriting process today that we follow for a secured SME retail loan that will be helpful, what does the person on the ground, what are the parameters that are actually looked at, and then what decisions are made at the branch credit level, and what goes to the corporate credit level so, that understanding will be very useful?

Management: Amit and Deepak will take it.

Management: So, this is a very, the question which pertains to how we underwrite in this segment. First of all, I will just give you an overall idea that these customers do not have been banked or they are not maintaining any financial, so it is very, very imperative to understand their business, what they are doing. So, we have a set team at a branch level. So if you see our credit hierarchy, I will just give you a glimpse of that, at every branch we have a credit manager, followed by four to five branches, or three to four branches, we have a cluster credit manager, and above that we have a regional credit manager, and then we have a zonal credit manager. Above zonal credit manager we have a credit control team which looks after the cases, which is beyond where we have to see lot of divisions are there, and the case pertains to the credit committee. So this is the hierarchy, and at a branch level, all the customers. Not a single customer who has not been visited by a credit team, whether it's a loan of 2 lakhs or whether it's a loan of 30 lakhs, every customer has been visited by the credit team. The credit team, goes, meet the client, understand their business, and tries to make their P&L in terms of what is their daily income, what is their daily expenses, then they look it into at a monthly and a yearly basis, based on that and everything is on a digital platform, on our LOS. So everything is, inputted onto the LOS and post that this, we have not given any authority at a branch level all the decisions have happened at a regional level. So even a case of 5 lakhs to 10 lakhs, we have a matrix in place where RPM which is the regional credit manager. Can, this is in the case up to 15 lakhs, more than 15 lakhs the jet CM has a power to approve, and anything beyond 30 lakhs or 25 lakhs, it comes to credit committee if it is required. So all the credit team is aligned to the policies and processes we have our credit policy in place. We have three to four products in place, and accordingly all the schemes are being, sold and training has been given to all the credit team on a monthly, on a quarterly basis. So on the underwriting parameters, we definitely see the CIBIL, we definitely see what are the scores, what are their credit behavior in the past four to five years. Are there any loans, which is there into the problem so civil we have look into consideration, we also look into consideration the business vintage, how many years of business these guys are doing, the client is doing, what is their end usage of the fund, whether they are going to use into the business, multiplication of the business is there or not. And, we do a rest check in the market, whether these clients, about the client, how their behavior have been into the past. So lot of checks and balances are done before onboarding a client. The credit manager is supposed to visit the business as well as the collateral also, because in 95% of the case, we have our SORP, which is self-occupied residential property, they are supposed to meet all the family members also. We also look into the consideration how many dependents are there in the family, because if the dependents are much, and the income earner is one, so we have a clear-cut policy, how many dependents has to be there. So, everything is an earmark into the system. We also see their net worth, what is their net worth, what are their collateral they have, or any, what kind of vehicles they have. So, lot of, permutation and combination is done before onboarding a client. And, none of the industry players do crime check. We also do a crime check of a client so that we can understand their relationship with the NBFC, earlier NBFC, whether they have been into under any litigation or not. And if you find any client which is running into more of three to four litigations of things, we don't onboard those clients. So that's the reason we have been very cautious. Giving loans to any of the client, these are the parameters, and all the parameters are duly checked. The integration is already there with various third-party players. And we try not to onboard any fraudulent client. But this segment is very prone to that, and that the reason all the client has been met, either credit team, whether it is five or 10. So our team also goes, credit manager also goes and meet the client of 10 lakhs, 15 lakhs wherever there is. So the PT is very, very important, the financial assessment is also very, very important in this segment.

Rohit Gupta: We have a very robust technology platform which do lot of checks.

Rachita Gupta: So, just to highlight more on the technology so, it's an end-to-end, the onboarding is end-to-end, and we are having a check and balance at each and every point to avoid any fraud or manipulated onboarding of the customer on the platform. And after that, for to name a couple of them, we have about more than 15 to 20 integrations from one service provider wherein we do Aadhaar, KYC, PAN cards and GST, ITRs and Udyam Aadhaar, and so on and so forth. And then further into that, we have also integrated directly with a bank for analyzing, wherein we fetch the bank statements directly by just taking the number of the customer and pulling all the information obviously with customer content, and analyze all of that, and then we get a lot of detailed analysis on that. We have two service providers giving us those information and like how Amit sir has mentioned in the call that we are using crime check, and it will give you all the litigation details if the customer has been involved in the past.

Management: So all checks are there.

Rachita Gupta: All checks are there, CIBIL is there, we are doing crisp checks are also there. On top of the CIBIL, there is another analysis that comes which helps our internal credit team to analyze the CIBIL in a much better format than we used to do, than usually all the NBFCs just look at the basic CIBIL report, and then they deduce their own information. Here, in we are giving them a detailed excel which tells them, a very detailed analysis about how the CIBIL has been behaving for the past couple of years. And this commercial CIBIL has access to commercial CIBIL as well. And also, all the communications are being done with the customer on WhatsApp the moment he's on boarded in our system till the time he is live with our platform. Every information of any deliverables, any payment, etc. all is being done there. People can repay also via all digital modes and platforms, we are available at all the UPI platforms, etc. So the visibility is pretty much there.

Rohit Gupta: 93% of our collections is digital only 7% of our total collection is happening in cash.

Rachita Gupta: Yes, and all of our collections are happening via e-NACH platforms and e-NACH are in, we don't disperse an account till the time in e-NACH is not activated in today's date, and e-NACH gets activated on real time basis. So a lot of strict monitoring at our end is there in order to go about it.

Nirvana Laha: Thank you so much, that was very detailed. So, I have some follow up questions. So, when we do an SORP, who does the property due diligence, is it our internal team, do we have third party and do we ensure that we have sole charge on the property, like no other lender has charge on the property?

Management: Yes, we have our, internal team also like I said in my earlier communication, that the credit team visits, even the credit and the branch team, the RM who is sourcing the case is supposed to take a picture from there itself, and there is all the pictures are watermark, and it gives details of what is the RM name, what is his employee ID, what time he is there. So, this is one function where we come to know that my people have gone there and show us the face directly from the client, number one. Number two, the collateral it is, we have a policy in place that up to 20 lakhs, we will get a external vendor to do the valuation, and more than 20 lakhs, we will have two external vendors to do the valuation. On top of it, we have our internal technical team, and they are supposed to get each and every valuation, and without their internal vetting, we don't disperse the case. So, this team also visit most of the cases prior to disbursal, but since now we have to close each and every case within the time frame. So, we have our regional technical team in place, and almost 70% to 80% of the technical team visits the collateral to ascertain whether these, valuations are in-line with the market standards. In terms of legality, we have our internal team in place, though we also take external views and opinions from our impaneled set of lawyers. But we have a very robust internal legal team which get all the cases before getting on boarded, and we make sure that the sole charge is of the company, once the loan is getting disbursed.

Nirvana Laha: Okay, and the title deed, etc. is checked by our internal team?

Management: Yes.

Management: So, we get a external legal team is doing that. In addition to that, our internal team is also getting the report given by the external team. So, in both the cases, technical and legal is outsourced but at the same time being vetted and clear by our internal team.

Nirvana Laha: And sir what is our current turn-around time?

Management: Turn-around time, I would say is three to six days.

Management: It is three to six days, why I am saying this because in this kind of properties, they do have the retail sales deed, or another set of documents, but we also check the past chain of that particular collateral, which takes little bit of time. So that's the reason the average time for clearance of all the loan between legal and onboarding is three to six days.

Nirvana Laha: Three to six days is from the time the inquiry comes to us till the time dispersal happens. All this happens within three to six days, am I right?

Management: So you are talking about legality, or you are talking about from end-to-end process.

Nirvana Laha: I am talking about the overall turnaround time for the disbursal.

Management: The overall turnaround time is around eight to 12 days.

Nirvana Laha: Eight to 12 days from inquiry to disbursement?

Management: Yes.

Management: **--47:50** is required, are getting taken over from other NBFCs, then the turnaround times become little creation of registered mortgage it takes its own time, depending from state-to-state and situation, it takes from five, seven days to 15 days. And, in case where the BT is happening, the digital top up check is only being handed over when we receive the documents from the previous lender.

Nirvana Laha: Sure got it. And sir last question is, what is the vintage of this portfolio, the SORP or SOCP based SME retail, and till date how many delinquencies have we had, and for the delinquencies have we had to take control of any property and try and liquidate it, if yes, then what has been our experience, how easy or difficult was it?

Management: Now you have a set of four, five numbers in terms of numbers or in terms of percentages you are talking about, I would as of date our portfolio largely now our pre-COVID portfolio is very small, less than, I would say, 5% to 6% of the total portfolio. And rest 93% of the portfolio has been built post COVID, post July 21 and secondly, in terms of cases in NPAs, I would say, as of now around out of 2700 - 2800 cases we have roughly maybe more than 60 cases in NPA, and in terms of our ability to resolve, as I told that whatever we have, whatever the cases which have become NPA or was written off in 2021 has been recovered to the extent of 91% and whatever the cases which were written off in 21-22 has been recovered 63% as on date. So, and in terms of SARFAESI is a very, very strong, I would say, legal tool with us, with arbitration, losing it, I would say the legal teeth, what has happened to one legal case where code of content arbitrator is required, which is very, very difficult in the segment as far as, the cost around involved is a very huge and we are working around that also. But SARFAESI is a very, very strong tool, and we have seen that whenever the cases move into SARFAESI, we are able to resolve 50% to 60% within six months. And few of them go into litigation or takes time to get the possession, as of date we have only four properties where we have taken possession and we are not able to sell it. And those have been shown under asset held for sale for around 1.5 crores. So our ability to resolve cases through SARFAESI and where the valuation is right and the property is saleable in most of the cases, the customer himself comes and pay for it, either bring in a new buyer or any financer or any relative or friend helping him. It is only in those cases where we have seen where valuation was lower than the amount outstanding or where the scalability is poor. That is, the complete resolution doesn't happen where we are left out with the properties which are held for sale. So, I have answered your question.

Moderator: Thank you. The next question is from the line of Anil Tulsiram from Contrarian Value Edge. Please go ahead.

Anil Tulsiram: Sir, earlier you mentioned that our focus has shifted from less than 15 lakhs to more than 15 lakhs because of lack of SARFAESI and other things. But many of your peers who are operating less than 15 lakhs, they say, once you have the collateral of property, hardly anyone defaults, and if anyone defaults, the moment you send the notice, money comes. So then what is the reason for our shift of focus from less than 15 to more than 15?

Management: I don't know, only HFC do have SARFAESI more than 1 lakh, which we don't have as NBFC. And I am surprised if anybody say that we are able to take.

Anil Tulsiram: I am not even your peers who are operating they don't have SARFAESI but they say, the moment they send the legal notice, the customers come and repay because you have the pledge of property, the papers are with you.

Management: That may be working to some extent, but that is not a complete solution, the property we have customers profile is not there and income, he is not left with any kind of income. If anybody who says that they have taken possession or they have been able to sell it, or I find it very, very difficult to digest that even with serving of a single notice, we are able to recover money, and we have not seen in our lending so, and I would say, little stress I told earlier is very good for this industry and for everyone to fully understand where the risks are and why. I would say a very, very aggressive growth can be very difficult in terms of when the things will turn little better and our focus always has been to see the risk and we have been much more, I would say prudent or little try to reduce that risk and we don't follow that route of aggressive lending, where we very well knowing that it will be very difficult to get resolution to legal route.

Anil Tulsiram: Sorry, to press on this point again, sir, I will take a specific example Sriram City Union is operating in this field less than 10 lakhs for last 10, 15 years. Their credit cost is only 3% in this field, and they are reporting good ROAs and similarly, there are other companies also. So, why I am pressing is, I am really trying to understand what is the difficulties that we are facing, which others are not facing, or what is different is our perspective compared to others?

Management: They are mostly into the second and third financing, so getting hold of that, because they have been there, they have been so old in that segment they know the full ecosystem, getting hold of those moveable property may be much easier, but for a property of less than 5, 10 lakhs with HSC or SARFAESI not in your site, getting those legal possession or customers, we are becoming too deterrent only with serving of a notice, maybe playing out in a certain area, but I don't think so, legally it is very, very difficult and customer has also become very intelligent and they also know that mere service of notice will not be, is very difficult to get the hold of the property through possession or through any other means.

Anil Tulsiram: Got it sir. One last question, you also mentioned that you are seeing some sort of stress in less than 15 lakhs. So, can you elaborate more on what sort of stress you are facing in your portfolio?

Management: I would say stress as an industry. Some stress is there, because I would and that stress has just only come when everybody was following that hard mentality of target based lending, and where the income growth of that customer has not happened, and where the customer has been over leveraged in last few years with aggressive lending, and definitely in India, the bottom pyramid of 40% to 50% of the population has not been able to participate in the GDP growth that we have witnessed as a country as a whole, on the larger basis, barring few profits which they have behaved otherwise, and that has been the primary reason, I would say, now with this consolidation and some kind of small stress, it is helpful for the industry, and consolidation will definitely happen. And we as a company are far better placed in terms of strong, I would say, capital adequacy and profitability, and our SME blessing in disguise you can say maybe only 30% to 31% of our total portfolio, and that too being total 100% secured. And we are always very prudent that to take corrective action where we see that stress is building up. And yes, definitely it is a case of over leveraging the customer.

Anil Tulsiram: What percentage of our book is less than 15 lakhs as far as the SME is concerned?

Management: Atul what will that number, maybe less than 20%.

Moderator: Thank you. The next question is from the line of Dhwanil Desai from Turtle Capital. Please go ahead.

Dhwanil Desai: Couple of questions on the branch network side. So, as per the presentation almost two third of our branch is more than one year old. So, how many of them would be break even or above if you can quantify that?

Management: Amit?

Amit Ranjan: Can you repeat the question, because there was some issue.

Dhwanil Desai: Yes. So total out of all the branches, as per the presentation, two thirds branches are more than one year old, so how many of them are break even and above, if you can quantify that number?

Management: See the exact figures will be, not there with me currently, but any branch which is able to do more than on a portfolio, sitting on a portfolio of 6.5 crores, they have been broken even. I think Atul will be having that number.

Dhwanil Desai: So that's okay, exact number is not important the point is, anything above one year generally, we should consider break even?

Management: Yes, in last six months with whatever the branches we have opened because of lesser business, they have not able to make break even. And as Amit rightly said, branches which achieve more than a AUM of 7 to 8 crores, and with the, I would say NPA of less 1.5% to 2% and with the overall power book of 78% that is a branch and keeps on doing business month-on-month within the range of 70 to 80 lakhs with a typical size of five to six people, is fairly profitable branch.

Moderator: Thank you. The next question is from the line of Ganesh Rao from Rupani Capital. Please go ahead.

Ganesh Rao: I have a couple of questions, sir is it possible for you to quantify the impact from the RBI guidelines to record disbursements on fund credited date, and can you also impact what is like the impact for you, when you have to reverse on the account of cancellation of pricing?

Management: I would say, it's just that it did had an impact where our, one and a half to two months business is on loss I would not say but those change into work in progress, and secondly lot of pending cases which were sanctioned but was not disbursed or cheques were not handed due to certain I would say PDD is in terms of, RN being not created, or certain documents not received, or certain preconditions not fulfilled. Those cases, which used to take another 15 to 30, 40, days sometimes now those instances will not be there. And this is a blessing in disguise for the whole segment in long term, because cases get sanctioned, it will be dispersed in a much lesser period, as compared to earlier in the industry. It will also help the sales team that they are more motivated that the cheque has been handed over, and they also get the incentives. The cancellation which we were fighting as a company for last 18 months, those instances will not be there going forward, and once the case has been sanctioned and booked. The focus will be to hand over the cheque and so in the longer term, yes definitely it will help us. The industry has been doing it, the way I told you, for last few years, and that changeover was little difficult, and now we have already lost that one and a half, two months, and now the last two months, which was with the new change scenario, going forward, it is good for every company and even for us, and it's a welcome change, and even the customer also feels happy that the turnaround time is lesser.

Management: And I will add it here, the type of cancellation. See, we need to understand the MSME segment in a very broader way, it is not only the factors which is due to the whether or maybe the RBI compliances, we also face a lot of issues in terms of getting registered mortgage done, we are at the mercy of the government agencies also, for example if you see in Gujarat, my none of the case is without registered mortgage, and for that we need to take a token. So now what we have done, and that's the reason our disbursals were little low, because we set up the system correctly where the token has to come in place before the disbursal has to be done. So with the dependency on, little bit on government agencies also the disbursal got delayed. And lot of papers, the property papers, used to come after getting disbursal, the cheque is getting made and, the customers missing that they will bring the property paper. The chain needs to be completed, which now doesn't happen. So, like sir said, that it is a blessing in disguise that now everything is getting completed on time, and we are disbursing those cases only which are fully complete. We are not even waiting for any PDTs also. So, this is a welcome change, and going forward it will add to the addition in the portfolio only.

Ganesh Rao: Awesome, thank you, sir. That is wonderful, the last question that I had was, with respect to our retail to wholesale ratio, which is at 40 to 60 and by the end of FY25 we expect you will achieve your stated goal of 55 to 45 which was your target. And given the current macro environment what pockets within retail do you feel confident the off take will be good for us to achieve a safer target?

Management: Definitely what we have targeted earlier to do 55:45 that will be difficult in next two quarters, because what the kind of very slow growth on the retail side, at the same time, wholesale has been able to do beyond the projected we could have easily done our target through higher allocation towards wholesale, which we strategically thought that we should not be doing it and it is better to reduce our target area numbers what we have targeted earlier so as to have a healthy mix. And from 3145, 3161 we think that we should be able to go up till with the numbers, maybe anything between 35% to 40% on the retail. 35% to 40% will be what we will be able to achieve on the retail since March, and the rest will be from the wholesale and, and

I would say, yes certain percentage spent on the dynamic, which is all what we thought that retail is very, very good in last six months because of the external factors, also like very bad weather conditions most and even the election and all those. So, where the wholesale has helped us. So being a company, being in the two pockets, we think that we are better off working within both the segments, and sometimes certain segments are doing better than the other. But our focus is definitely to build our retain in the longer term.

Ganesh Rao: So just a quick small follow up, by when do you think you can achieve this target. One quarter here or there is fine, but FY25 as you said?

Management: Achieving target, so we could have done even also, but then we don't want to compromise on the quality.

Ganesh Rao: This we have conservative nature, when do you think you will be able to achieve?

Management: See in certain segments, what is ultimate goal of the company is to see that we are having healthy profitability, and our quality of book is there, and sacrificing quality at that just to maintain that mix is not the line that we as a company follow. And where, if everybody, every I would say analyst have been saying that retail is very, very good in last four years, you please tell and analyze see those companies, even if you are building AUM, whether they are building profits, such a huge operational cost, with highest branch expansion, where 50% of the branches running below productivity till what time they can run with that and with the with the stress coming out of it, as a company we have to see, we have to balance ourselves. In certain few years, quarters, in certain segment is doing better we as a company a better place to focus on that and to tighten the segment and yes, our long term strategy focus is to build on SME that will continue to do it, and we will do it, but in the last six months were little certain regulatory changes and tightening of credit policy and external factors, will slowdown that strategic shift and yes, quality will always be foremost for us. I just want to understand whether you think that a company should follow, just losing, I would say quality and just follow the retail. Do you think that continue to grow aggressively, I am just asking, as a very layman, your opinion.

Ganesh Rao: No, sir that's what I said, based on your conservative nature when do you plan to achieve this, because I have been tracking it.

Management: It is there but, certain factors are beyond control, and you can't ignore what is happening around you. You are working in a very competitive environment, and the dynamics keeps on changing. For us as a company the quality of the book is more important.

Moderator: Thank you. Ladies and gentlemen we will be taking the last question that is from the line of Manav an Individual Investor. Please go ahead.

Manav: Sir, what will be your guidance for the ROA and ROE numbers for next three, four quarters?

Management: ROE was around 14% to 15% and we are striving for that we should be able to maintain it and slight improvement maybe in next two quarters, with the higher AUM and ROA is roughly between 6% to 7% and we will also be able to see that 50 bps, may come down with the higher AUM.

Manav: And leverage ratio is at being 2x. So in the Q4 you had told that you would increase the leverage. So how much we are expecting to increase the leverage with this?

Management: With the target of what we have targeted, if we are going to see 1,350 crores our leverage will be roughly around 1 to 1.45. So, it was a function of both, we could have definitely done it but then the wholesale book would have increased. And I told earlier that our strategy is shifted towards retail and that will be there and though it has reason in favor of wholesale being beyond a point we don't want to do that.

Moderator: Thank you. Ladies and gentlemen, that was the last question. I now hand the conference over to Mr. Rohit Gupta for his closing comments.

Rohit Gupta: Thank you everyone for sparing your time and coming to our Q2 and first half results for FY25 and hope to see you again when we complete our financial year, and we are always open to any queries and our investor can be reached and so we are always open for if any individual or specific query is there. Thank you everyone for participating and thank you very much.

Management: Thank you.

Moderator: Thank you, members of the management team. Ladies and gentlemen, on behalf of CSL Finance Limited, that concludes this conference call. We thank you for joining us and you may now disconnect your lines. Thank you.